

BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON, D.C. 20268-0001

Postal Rate and Fee Changes, 2000

Docket No. R2000-1

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**RESPONSES OF NEWSPAPER ASSOCIATION OF AMERICA  
WITNESS WILLIAM B. TYE TO INTERROGATORIES OF  
THE UNITED STATES POSTAL SERVICE (USPS/NAA-T1-1-40)  
June 29, 2000**

The Newspaper Association of America hereby provides the responses of witness witness William B. Tye to the following interrogatories of the United States Postal Service (USPS/NAA-T1-1-40), filed on June 15, 2000. Each interrogatory is stated verbatim and is followed by the response. A declaration is attached.

Respectfully submitted,

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**CERTIFICATE OF SERVICE**

I hereby certify that I have this date served the instant document on all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.

June 29, 2000

William B. Baker  
William B. Baker

RESPONSE OF NEWSPAPER ASSOCIATION OF AMERICA WITNESS TYE  
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USPS/NAA-T1-1. Provide citations and copies of any published material you have authored on the market for advertising in newspapers, Standard Mail (A), or third-class mail.

RESPONSE:

I have not published any articles concerning the market for advertising in newspapers, Standard Mail (A), or third-class mail.

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USPS/NAA-T1-2. On page 6 of your testimony, you state, "the Postal Service has resubmitted essentially the same 'distribution key analysis' that it relied upon in Docket No. R97-1 with only a few changes." Identify all of the "changes" in the "distribution key analysis" of which you are aware.

RESPONSE:

See Daniel Testimony (USPS-T-28) at pages 8-9, Moeller Testimony (USPS-T-35) at page 20, AAPS/USPS-T28-3 (Tr. 4/1159) and Tr. 4/1403-1404.

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USPS/NAA-T1-3. On page 7 of your testimony, you state:

There is no reasonable way to conclude that these four factors can produce a pound rate with *three* significant digits down to a precision measured in mils (a tenth of a cent).

- a) How many significant digits should be used to express the pound rate? Upon what basis do you make this determination?
- b) If you were to recommend an increase in the pound rate based on the information presented in your testimony, would your proposed rate not be measured in mils? If not, how would it be expressed?
- c) Is it your belief that, if changes are considered in the pound rate, they should necessarily be expressed in whole cent increments, or in increments that represent a multiple of some positive integer other than 1? Please explain your response.
- d) Do you believe it is incorrect, as a matter of ratemaking policy, to set the pound rate to the level of precision proposed by the USPS in this docket so that the Postal Service can meet a revenue target with a greater degree of proximity to that target?
- e) Do you believe that the pound rate is set independently, so that the pound rate has no impact on piece rates for pound rated pieces?

RESPONSE:

- (a) Based on historical precedent, three significant digits. My point is that witness Moeller's four factors do not compel the precise figure he proposes.
- (b) Yes, it would be measured in mils.
- (c) No. I believe that if the Postal Service's ECR rate design formula is used to determine the pound rates, it is appropriate to consider changes in the pound rate expressed in tenths of cents.
- (d) No.

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(e) The Postal Service chooses its proposed pound rate. If cost coverage and other factors are held constant, there is a relationship between the pound rate and the piece rate for pound-rated pieces. However, as explained at pages 31, line 18, to page 33, line 11, of my direct testimony, I believe that the process is "bottom up" and that pound rates and other rate components drive the coverage.

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USPS/NAA-T1-4. On page 8 of your testimony, you state "[w]itness Daniel admits that her current distribution is essentially the same as that rejected in Docket No. R97-1."

- a) Confirm that your statement is based on the following passage at Tr. 4/1403-04:

Q Now, and with a couple of differences which you note, I think, on page 8, and also in response to AAPS-3, you basically -- Library Reference 92 is basically the same work that Mr. McGrane did, but you changed a couple of the distribution keys, at least for elemental load and also the no-weight tallies?

A We also changed the mail processing analysis.

If not confirmed, please explain.

- b) If the Commission were to rely on what you call the "distribution key analysis" to lower the pound rate, in your view, would it be inconsequential whether the Commission chose to accept the distribution key analysis as witness Daniel presented it in this case, or using the methodology that witness McGrane presented in Docket No. R97-1? Please explain.

RESPONSE:

- (a) Not confirmed. See my response to USPS/NAA-T1-2.

(b) "Distribution key analysis" is not a term I created; it is the term used by witness Daniel at Tr. 4/1386, line 5. It is my opinion that the Commission should not rely on either analysis. The Postal Service has made some improvements to the analysis in R2000-1, notably the attribution of elemental load costs, but as witness Clifton points out in his testimony (ABA&NAPM-T-1) at pages 42-53, these improvements have come at the expense of other problems in the cost estimates. What the Commission relies upon is not inconsequential.

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USPS/NAA-T1-5. On page 9 of your testimony, you state, in reference to witness Daniel's testimony, that "[h]er improvement, while a step in the right direction, is insufficient to cause unreliable data to become reliable."

- a) Confirm that the "improvement" to which your statement refers is witness Daniel's distribution of elemental load costs. If not confirmed, please explain.
- b) Are there are other "improvements" to the "distribution key analysis" of which you are aware? Please explain.

RESPONSE:

(a) Confirmed.

(b) See my response to USPS/NAA-T1-2 for a list of changes.

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USPS/NAA-T1-6. You state on page 10 of your testimony that "the number of tallies from which the [distribution key analysis] is derived are far too thin on which to base such a significant a rate design."

- a) In drawing this conclusion, what data did you consider in concluding that the data are "too thin"?
- b) State how you believe thinness of data should be evaluated: the number of tallies, or some statistical tool that considers the number of tallies in relation to other tallies.
- c) Of what statistical tools are you aware that serve to evaluate thinness of data?

**RESPONSE:**

- (a) See the cites listed in my direct testimony at page 10, footnote 18.
- (b) Thinness of tallies can be evaluated by examining the number of tallies and checking for unexpected fluctuations in the data. In this case, the tallies were so clearly thin that I felt no particular statistical test was needed.
- (c) See witness Clifton testimony (ABA&NAPM-T-1) at pages 46-47 and witness Ramage in his response to ANM/USPS-T2-13.

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**USPS/NAA-T1-7. Please see your testimony at pages 36-40 where you discuss the revenue projections of the Postal Service.**

- a. Is it your contention that Standard Mail (A) pieces will get heavier if the pound rate is reduced as proposed by the Postal Service? Please explain.**
- b. If so, would you expect that the Standard Mail (A) revenue per piece would increase beyond what is projected by the Postal Service?**
- c. If the answer to subpart (b) is negative, explain how the revenue per piece will not increase beyond what is projected by the Postal Service if weight per piece increases.**

**RESPONSE:**

- (a) Yes. If sending pound-rated pieces becomes relatively cheaper than sending piece-rated pieces, current and potential future mailers who have the ability to choose the weight of their mail (e.g., by consolidating multiple mailings) would have an incentive to send pound-rated pieces.**
- (b) No.**
- (c) See my direct testimony, page 40, lines 9-14.**

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USPS/NAA-T1-8. Please see your testimony at page 11, lines 7-13, where you postulate that pieces that might otherwise qualify for parcel post are "lightened" in order to qualify for Standard Mail (A), which results in "more tallies" in the 15-16 ounce range.

- a. Are the additional tallies due to additional volume?
- b. If so, would the additional volume be included in the volume data by ounce increment? If not, please provide the basis for your conclusion.
- c. Are the additional tallies incurred because of the shape of the pieces and the higher cost for pieces of that shape? Please provide the basis for your conclusion.
- d. Are these pieces more likely (than pieces of other weights) to be parcel-shaped? Why or why not? Please provide the basis for your conclusion.
- e. Is it your understanding that merchandise sent via Parcel Post may be sent in the ECR? If so, what shape can these pieces take?

RESPONSE:

- (a) The question is difficult to answer because it does not indicate from what the difference should be measured. In any event, high measured unit costs in this weight increment presumably reflect a disproportionate number of tallies relative to the volume in the weight increment.
- (b) Not applicable.
- (c) Possibly. Additional tallies relative to the volume in that weight category seem to be an effect found in each of the Standard Mail (A) subclasses.
- (d) It is unclear what you mean by "pieces of other weights," but in any case, Library Reference USPS-LR-I-102 provides distributions by shape.

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(e) Not necessarily. It would depend on whether the merchandise met the mailing requirements of ECR. It seems most likely that these pieces would be parcels or flats.

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USPS/NAA-T1-9. You state on page 14 that "it would be more precise to note that the problem arises from the small number of tallies recorded for *both* subclasses."

- a) Confirm that your statement is referring to Nonprofit ECR and ECR. If not confirmed, please explain.
- b) Identify the "problem" that you note in your statement. If not, why not? If so, what conclusions did you draw from such analysis?
- c) In drawing this conclusion, did you compare the number of tallies recorded for Nonprofit ECR and ECR?
- d) What is the total number of Nonprofit ECR tallies that you considered in drawing this conclusion, per weight increment, and for the subclass as a whole?
- e) What is the total number of ECR tallies that you considered in drawing this conclusion, per weight increment, and for the subclass as a whole?
- f) Consider a hypothetical subclass in which all mail processing was performed by the mailer, and the mail was given directly to the carrier ready for delivery.
  - (i) Please confirm that there should be very few mail processing tallies associated with this subclass. If not confirmed, please explain fully.
  - (ii) For this hypothetical subclass, would the thinness of tallies be indicative of a problem with a low cost estimate and a large worksharing discount?
- g) Would you expect that heavily workshared subclasses, which require very little processing by the Postal Service, would have fewer tallies than less workshared subclasses, if all other things were the same?
- h) Please confirm that for a given volume of mail, fewer tallies would be indicative of less handling of the mail, and therefore reflect lower costs? If not confirmed, please explain fully.

RESPONSE:

(a) Confirmed.

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- (b) The problem I refer to is "estimating and calculating unit costs for small volume categories." I am not sure I understand the remainder of your question, but I do conclude that the tallies are too few to allow reliable estimation of unit costs for small-volume categories.
- (c) No. I do not have tally data for Nonprofit ECR, though I believe them to be more sparse than ECR tally data.
- (d) See part c.
- (e) See witness Daniel responses to interrogatories VP-CW/USPS-T28-24 and NAA/USPS-T28-22 (Tr. 4/1306-1309, 1342-1344).
- (f)
- (i) Confirmed, assuming that the number of tallies was directly proportional to the amount of processing.
  - (ii) Possibly, though thinness of tallies would continue to hinder obtaining reliable estimates.
- (g) Yes, assuming that the number of tallies was directly proportional to amount of processing.
- (h) Not confirmed. If the number of tallies were directly proportional to the amount of processing and if processing costs were equal per unit amount of processing, then this statement would be true, but otherwise not.

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USPS/NAA-T1-10. On page 14 of your testimony, you refer to a "major ECR rate design restructuring" that witness Moeller allegedly performs.

- a) Confirm that the "major ECR rate design restructuring" to which you refer is the reduction in the ECR pound rate from \$0.663 to \$0.584. If not confirmed, please explain.
- b) Does your statement intend that a proposed rate reduction for a particular rate element on the order of approximately 12% should be interpreted as a "major" rate design restructuring? Please explain.
- c) What consequence does a reduction in the pound rate have on the piece rate element for pound rated pieces?
- d) If the overall rate change for a given subclass is a 5% increase, what is the maximum percentage change for an individual piece that you view as *not* being a major rate design restructuring?
- e) If variations in percentage change by rate category is defined as "major rate design restructuring," how would you characterize the addition of a new worksharing discount?
- f) Would you also claim that a rate increase of 12% of any given rate element would be a "major rate design restructuring"? Please explain.

RESPONSE:

- (a) Not confirmed. It is the combination of the ECR pound rate reduction along with increases for every piece-rated rate category.
- (b) I cannot characterize a "proposed rate reduction for a particular rate element" without being provided more specific information.
- (c) See my response to USPS/NAA-T1-3 (e).
- (d) I did not have a specific maximum percentage change in mind. See my response to part a.
- (e) I cannot characterize the "addition of a new worksharing discount" without being provided more specific information.

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- (f) I cannot characterize a proposed rate increase for a particular rate element without being provided more specific information.

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USPS/NAA-T1-11. Please refer to page 14 of your testimony, where you state, "[a]lthough she does not endorse them, witness Daniel includes in her analysis several regressions generated by the Excel spreadsheet program."

- a) Identify all of the Excel spreadsheet programs to which your statement refers, and provide a citation to the transcript, library reference, or testimony where the regressions are found.
- b) Provide all citations to documents in this record that underlie your acknowledgement that witness Daniel "does not endorse" the "several regressions" referenced in your statement.

RESPONSE:

- (a) See USPS-LR-I-91 [Revised 3/1/00] and USPS-LR-I-92, specifically the following Excel spreadsheet programs: LR91aSPrevised.xls, LR91bPRErevised.xls, LR92aREG.xls, LR92bECR.xls, LR92cNP.xls, LR92dNPE.xls.
- (b) See witness Daniel Responses to Interrogatories NAA/USPS-T28-13, 14, 15, and ABA&NAPM/USPS-T28-4 (Tr. 4/1292-1296, 1168-1169).

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USPS/NAA-T1-12. You state on page 16 of your testimony that witness Daniel "does use weighted regression to justify rate design in the Periodicals subclass."

- a) Is it your belief that the patterns of weight by ounce increment of Periodicals Mail would be similar to that of ECR? Please explain.
- b) Do you believe that the Periodicals rate structures (excluding Within County) are similar to that ECR? Please explain.
- c) Identify all of the ways in which the Periodicals rate structure (excluding Within County) differs from the piece/pound structure of ECR.
- d) Do you claim that consistency in the use of weighted regressions between Periodicals Regular and ECR is a worthwhile objective when analyzing the relationship between weight and cost in these subclasses? Please explain.

RESPONSE:

- (a) No, I was merely making the point that witness Daniel found weighted regression an appropriate tool for Periodicals Mail but not for either First Class or the Standard (a) Mail subclasses.
- (b) No. See part a.
- (c) I have not specifically examined the Periodicals rate structure, but certainly the Postal Service should be aware of the differences.
- (d) I find consistent methodologies applied to similar types of data a worthwhile objective, but methodologies are reliant on the underlying data, which are unreliable.

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USPS/NAA-T1-13. You note on page 18 that "equalizing these cost coverages [for Standard Mail (A) Regular] would require, *ceteris paribus*, an increase in the Regular pound rate." (footnote omitted)

- a) Does NAA support the concept of narrowing the difference in the implicit cost coverages for pound-rated and piece-rated pieces in Standard Mail (A)? In the Standard Mail (A) Regular Subclass? In the ECR subclass? Please explain.
- b) Does NAA favor an increase, decrease, or no change in the Regular subclass pound rate? Please explain.
- c) Does NAA favor an increase, decrease, or no change in the Nonprofit subclass pound rate? Please explain.
- d) Does NAA favor an increase, decrease, or no change in the Nonprofit ECR subclass pound rate? Please explain.

RESPONSE:

(a-d) To my knowledge, NAA has not taken a position on the pound rate for Standard A subclasses other than ECR. Given the quality of the data offered in support of the reduction of the pound rate in ECR, NAA opposes use of the implicit cost coverage test in ECR to "narrow the [alleged] difference" you cite. Evidently, the Postal Service does not believe that implicit cost coverage test should be applied consistently, as discussed at pages 16-23 of my direct testimony.

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USPS/NAA-T1-14. Please see the table on page 19 of your testimony. Do the unit revenue figures include revenue from the residual shape surcharge?

RESPONSE:

No. I was following the methodology used by witness Moeller, in which he does not include residual shape surcharge revenues in his calculation of unit revenue figures for ECR piece-rated and pound-rate pieces.

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USPS/NAA-T1-15. On page 19 of your testimony, you state:

The Postal Service's inconsistency is not confined to Standard A mail. Applying the same comparison to First Class Single Piece mail, classifying 1 ounce pieces as "piece-rated" and greater than 1 ounce pieces as "pound-rated," gives a before-rates cost coverage for one-ounce pieces of 164.7% and a cost coverage for heavier pieces of 185.0%.

- a) Identify the characteristics that differ between the additional ounce rate in First-Class Mail and the pound rate in Standard Mail (A) ECR.
- b) Identify the characteristics that differ between the First-Class Mail first ounce increment and the piece rate in Standard Mail (A) ECR.
- c) Does your analysis on page 20 include revenue for the nonstandard surcharge?

RESPONSE:

- (a) I am not sure I understand what you mean by "characteristics." But if this is a reference to rate characteristics, one difference I am aware of is that for First Class Mail, the rate is based on the weight of a piece rounded up to the nearest ounce increment (resulting in a systematic upward bias), while for Standard Mail (A) ECR, the rate is based on the actual weight of piece, not rounded up. In addition, the First Class additional ounce rate applies to any piece weighing more than one ounce, while the pound rate for Standard Mail (A) ECR applies to pieces weighing more than roughly 3.3 ounces.
- (b) I am not sure I understand what you mean by "characteristics," but if this is a reference to rate characteristics, then one difference is that the first ounce increment for First Class applies to all pieces, while the piece rate for

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Standard Mail (A) ECR applies to pieces weighing less than roughly 3.3  
ounces.

- (c) Yes, because Library Reference USPS-LR-I-102 provides weight-related  
breakdowns for the nonstandard surcharge. Were the nonstandard  
surcharges excluded from the calculation, the before-rates cost coverages for  
"piece-rated" pieces would decrease to 164.3%, increasing the differential  
between "piece-rated" and "pound-rated" pieces to 20.7%.

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USPS/NAA-T1-16. Please see your testimony at page 20, line 9, through page 21, line 4. You state:

In addition to the above examples, it should be noted that the cost coverage comparison is not discussed at all for Standard A Nonprofit ECR. In the Nonprofit ECR subclass, witness Moeller has proposed an increase in the pound rate. It is interesting to observe that the Postal Service also estimates the own-price elasticity of Nonprofit ECR mail estimates to be -0.162 indicating a relatively inelastic demand and that there may be fewer competitive threats to the Postal Service. Thus, it would appear that the Postal Service is proposing pound decreases in more competitive Standard A subclasses, and pound rate increases in what are perceived to be less competitive Standard A subclasses. Although he denies any competitive rationale for his proposed pound rate changes, his proposals certainly conform to a pattern of a "stealth" competitive reductions. (footnote omitted)

- a. Is it your position that the Postal Service views nonprofit Standard Mail (A) as material that can be priced in a manner that enhances the Postal Service's revenue due to a lack of competition for this mail?
- b. Explain your belief as to how the markups for the nonprofit subclasses are selected.
- c. Is it your belief that the markup for nonprofit subclasses can be selected independently by the Postal Service?
- d. Do you know how the markup for ECR affects the markup for Nonprofit ECR? If so, please explain.
- e. Is it your understanding that the own-price elasticity for Nonprofit ECR is for the entire subclass, or just the pound-rated portion?
- f. Is it your belief that witness Moeller's proposed pound rate for Nonprofit ECR would have been lower if demand for Nonprofit ECR had been less inelastic?

RESPONSE:

- (a) Your question asks about the Postal Service's "views," not the economic effect of its proposals. While I am in no position to speak for the Postal

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Service, see parts b-d below for the citation of the rationale provided by the  
Postal Service in this proceeding.

- (b-d) See Mayes Testimony (USPS-T-32) at pages 37-40 (Nonprofit and  
Nonprofit ECR).
- (e) My understanding is that the own-price elasticity for Nonprofit ECR estimated  
by witness Thress is for the entire subclass.
- (f) I am in no position to speak for Mr. Moeller. However, as explained in my  
direct testimony, page 20, line 12, to page 21, line 4, Mr. Moeller is proposing  
a cut in the pound rate for a subclass where he previously expressed  
concerns over competition and he is proposing an increase in the pound rate  
for a subclass where the Postal Service estimates a relatively inelastic  
demand.

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USPS/NAA-T1-17. Please see your testimony at page 21, lines 18-21. You state:

The rate proposals conform to a pattern of an enterprise seeking to use rate levels and rate design to shift volume from private enterprise competitors and to finance these rate structures with revenues from mail legally protected from competition.

- a. Identify, by parameters of content and rate category, all of the classifications of mail that you believe "are legally protected from competition."
- b. Identify, by parameters of content and rate category, all of the classifications of mail that you believe are benefited financially from the "revenues from mail legally protected from competition."
- c. Within the First-Class Mail rate design, please explain how the proposal "conforms to a pattern of an enterprise seeking to use rate levels and rate design to shift volume from private competitors and to finance these rate structures with revenues from mail legally protected from competition."
- d. Within the Standard Mail (A) rate design, please explain how the proposal "conforms to a pattern of an enterprise seeking to use rate levels and rate design to shift volume from private competitors and to finance these rate structures with revenues from mail legally protected from competition."

RESPONSE:

- (a) While I am not an attorney, I believe that First Class Mail, parts of Priority Mail, and parts of Standard (A) Mail are protected under the Private Express Statutes.
- (b) It is impossible to identify all the specific subclasses that benefit.
- (c-d) Witness Fronk proposes to raise rates for First-Class Mail. Witness Moeller proposes to reduce pound rates and witness Mayes proposes to reduce the cost coverage for Standard Mail (A) ECR.

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USPS/NAA-T1-18. Please see your testimony at page 23, line 9. You state:

As i will show, this proposal is not well supported and gives rise to undesirable anomalies in rate design for both the Standard A commercial Regular and ECR subclasses.

- a) Identify precisely the "anomalies" to which you are referring.
- b) State whether these are the same anomalies referred to on page 24 lines 7, 14, and 19. If not, please explain.
- c) Define "anomalies" as it used in your statement on page 23.

RESPONSE:

- (a) "Anomalies" is a reference to passthroughs which differ substantially from 100%, and which are needed to maintain desired rate relationships such as the ECR Basic Letters to Regular 5-digit Automation Letter relationship. These would include the 160% Regular Letter automation 5-digit passthrough and the 0% ECR Letters Basic passthrough.
- (b) Yes.
- (c) See part a.

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USPS/NAA-T1-19. Please see your testimony at page 24, lines 10-12. You state:

Witness Moeller places the blame for the rate anomalies on a professed necessity to live within the constraint of the cost coverages he was ostensibly given by witness Mayes. She, in turn, claims that curing the anomalies are Mr. Moeller's responsibility, since he is the rate design witness.

- a) Provide all citations to the record showing where witness Moeller assigns alleged "blame" regarding rate anomalies.
- b) Provide all citations to the record showing where witness Mayes assigns alleged "blame" regarding rate anomalies.
- c) Identify precisely the "anomalies" to which you are referring.

RESPONSE:

- (a) See AAPS/USPS-T35-3, NAA/USPS-T35-12, 18, 28 (Tr. 10/3830, 3869, 3875, 3887).
- (b) See NAA/USPS-T32-21 (Tr. 11/4324-4325).
- (c) See my response to USPS/NAA-T1-18 (a).

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USPS/NAA-T1-20. Please refer to page 25 of your testimony, lines 12-13.

- a. On what basis do you assert that Library Reference USPS-LR-I-149 was "sponsored by witness Bernstein"? Provide citations to the record supporting your claim.
- b. Provide your understanding of the term "sponsorship."

RESPONSE:

- (a) I found it difficult at times to determine exactly where witness Bernstein got his data because his workpapers often did not indicate the source of his data. I have determined that witness Bernstein's use of unit attributable cost using the PRC methodology and related cost coverages derived from Library Reference USPS-LR-I-156, not Library Reference USPS-LR-I-149. An appropriate correction will be filed shortly to my written testimony.
- (b) Not applicable.

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USPS/NAA-T1-21. Please refer to pages 26-27 of your testimony, where you state:

Ms. Mayes confirms that First Class markup index is going up at Tr. 11/347-48 (Mayes). She argues "the shift of some of this institutional burden to First-Class Mail, particularly in view of the relatively small increase in First-Class Mail rates, was not viewed as unfair." Tr. 11/4350 (Mayes). Note that the effect of this shift is that the First Class share of non-volume variable costs has increased from the Postal Service's R97-1 proposal of 62 percent to the current proposal of 64 percent. Tr. 11/4351 (Mayes). This shifting of the institutional cost burden to a monopoly class is unjustified, and is something this Commission should not tolerate.

- a) Please identify the "monopoly class" to which your statement refers. Does your statement refer to the entire class, a subclass, or only portions thereof?
- b) Confirm that the 62 percent markup that you cite in your statement is based on the PRC recommended cost coverage for First-Class Mail Letters & Sealed Parcels Subclass in Docket No. R97-1.
- c) Confirm that the 64 percent markup that you cite in your statement is based on the USPS proposed cost coverage for First-Class Mail Letters & Sealed Parcels Subclass in Docket No. R2000-1.
- d) Does your statement assume that the entirety of the increase in the First-Class Mail markup is the result of an effective reduction in the Standard Mail (A) markup? Please explain your response.

RESPONSE:

- (a) See my response to USPS/NAA-T1-17 (a).
- (b-c) The figures in my direct testimony are from a response given by witness Mayes, OCA/USPS-T32-5 (Tr. 11/4351).
- (d) No. Increases in the markup of First Class have the effect of providing revenues available to finance lower rates in classes such as ECR.

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USPS/NAA-T1-22. Please see your testimony at page 27, footnote 49. Please provide the passage in the citation and highlight that portion of the quotation that addresses your contention that "Mr. Moeller claims that the anomalous passthroughs that he proposes are unavoidable consequences of adhering to the cost coverages which he takes as given from Witness Mayes."

RESPONSE:

The correct reference is to NAA/USPS-T35-12 (Tr. 10/3869), where witness Moeller states, "The selection of the target coverage for ECR is beyond the scope of my direct testimony... The rate relationship can be maintained through a combination of passthrough selections in the ECR and Regular subclass, and cost coverage assignment in the ECR subclass."

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USPS/NAA-T1-23. Please see your testimony at page 28, footnote 50.

- a. Confirm that the citation only includes the first sentence of witness Moeller's response to the question.
- b. Is it your claim that the next sentence in witness Moeller's response, which reads "the rate design attempts to recognize as much of the measured cost difference that is appropriate and possible," is a dismissal "of costs as a rate design objective"? Please explain fully.

RESPONSE:

(a) Confirmed.

(b) "As much of the measured cost difference that is appropriate and possible" would suggest to me a desire to bring passthroughs close to 100%, while the Postal Service has in fact proposed a number of passthroughs that depart from that objective. In practice, therefore, the qualifier "appropriate" seems to be used to justify effectively dismissing costs as an objective.

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USPS/NAA-T1-24. Please see your testimony at page 30, lines 14-17. You state:

In short, passthrough percentages varying from 0 to 500% were imposed ostensibly to accommodate witness Mayes's proposed reduction in the ECR cost coverage, yet maintain desired rate relationships. The failure even to consider adjusting cost coverages to eliminate the passthrough anomalies is a serious omission.

- a) To what "desired rate relationships" does your statement refer?
- b) Is it your testimony that the passthroughs selected in the rate design of Standard Mail (A) were solely based on a desire to accommodate a proposed reduction in the ECR cost coverage?
- c) If your response to subpart (b) is affirmative, provide citations to the record supporting your claim.
- d) Is it your belief that the proposed change in the volume variability of mail processing costs in this docket should have no influence on the cost differences for rate categories in Standard Mail (A) Regular?
- e) In what manner does the change in volume variability in mail processing costs proposed by the Postal Service in this docket affect the differentials in Standard Mail (A) Regular?

RESPONSE:

- (a) I primarily had in mind the relationship between ECR Basic Letters and Regular 5-digit Automation Letters, but other rate relationships would include those identified by witness Moeller in his testimony (USPS-T-35) at pages 5, 15, 25, and at Tr. 10/3830.
- (b) It is difficult to uncover all the "desires" that went into Mr. Moeller's proposed passthroughs. But I do believe that the proposed reduction in the ECR cost coverage influenced the selection of the passthroughs. See NAA/USPS-T35-12 (Tr. 10/3869).

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(c) Not applicable.

(d-e) It is unclear to me what particular "cost differences" and "differentials" you are referring to. I have not studied the proposed costing changes you cite. What influence the proposed changes ultimately will have is the Commission's decision.

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USPS/NAA-T1-25. Please see your testimony at page 32, lines 8-9. Is your diagram intended to depict the "iterative process" mentioned in the citation in footnote 56? If not, what purpose does the diagram serve?

RESPONSE:

No. The reference to an "iterative process" originates at witness Moeller testimony, page 4, line 16, where witness Moeller discusses iterations within his rate model made in order to determine various rate elements, not relationships between the cost coverage and the rate design. The diagram serves as a graphic reminder of what I mean by the terms "top-down" and "bottom-up."

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USPS/NAA-T1-26. Please see your testimony at page 33, lines 4-5. You state that "[i]t is interesting to note that the resulting rate proposals are entirely consistent with a desire to divert volume from private enterprise competitors."

- a) Please confirm that the USPS proposed cost coverage for ECR is 208.8 percent. If you cannot confirm, please provide what you believe the proposed cost coverage to be.
- b) Please confirm that the proposed systemwide cost coverage is 168.0 percent. If you cannot confirm, please provide what you believe the proposed cost coverage to be.
- c) Would a cost coverage lower than that confirmed or provided by you in subpart (a) be more consistent with the "desire to divert volume from private enterprise competitors?" If your answer is no, please explain.
- d) What quantitative analysis did you undertake to support your claim that the proposed USPS rates will result in an alleged diversion of volume from private sector competitors? Provide all documents that were prepared for this analysis and show all calculations.
- e) Please provide your estimate of TYAR ECR volume if it differs from that provided by the Postal Service.
- f) Please identify exactly how much of the volume difference between TYBR and TYAR is due to diverting volume from private enterprise competitors.

**RESPONSE:**

(a-b) I can confirm that witness Mayes proposes this cost coverage based on data provided to her by witness Moeller. The actual cost coverage proposed depends on the particular methodology used to calculate revenues and costs. Use of FY99 data will also affect the results. The below tables show, using the PRC costing methodology, that the Postal Service's proposed cost coverages are below the cost coverages that would be needed to maintain the markup index or cost coverage index from Docket No. R97-1.

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	Cost coverage needed to maintain markup index from R97-1 using PRC costing methodology	Postal Service's proposed cost coverage using PRC costing methodology
Standard Mail A Enhanced Carrier Route	201.0%	195.8%

Source: USPS-LR-I-149.

	Cost coverage needed to maintain cost coverage index from R97-1 using PRC costing methodology	Postal Service's proposed cost coverage using PRC costing methodology
Standard Mail A Enhanced Carrier Route	201.6%	195.8%

Source: USPS-LR-I-149.

- (c) I have not confirmed or provided the Postal Service's cost coverage in part a.
- (d) See my response to USPS/NAA-T1-32 (c).
- (e) Not applicable.
- (f) If correctly calculated, the difference between TYBR and TYAR volumes is due to the Postal Service's proposed rate changes. Therefore, it is not a measure of diversion due to rate increases not proposed. See also page 46 of my direct testimony, lines 4-7.

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USPS/NAA-T1-27. Please see your testimony at page 38, footnote 70. Are you suggesting that the percentage rate change calculation by witness Moeller did not control for migration? If your answer is positive, define "control for migration."

RESPONSE:

Yes. The phrase "controlling for migration" is used by witness Moeller in NAA/USPS-T35-37 (Tr. 10/3897), though I would also include intra-subclass migration in the definition.

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USPS/NAA-T1-28. On page 35 of your testimony, you state:

Were the Postal Service to use its incremental cost measure to calculate the ECR cost coverage at its proposed rates, the resulting cost coverage would also be lower than that proposed by the Postal Service.

- a) Is it common for a firm that cannot obtain sufficient revenues from prices set at marginal cost to set markups on the basis of marginal costs, and to use incremental costs to measure whether a product is not being cross-subsidized with revenues from other products? Please explain your response.
- b) Please provide a list of all other subclasses for which the use of the "incremental cost measure to calculate the ... cost coverage at its proposed rates, the resulting cost coverage would also be lower than that proposed by the Postal Service."

RESPONSE:

- (a) I have not performed a survey of firm practices.
- (b) All subclasses.

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USPS/NAA-T1-29. Please see your testimony at page 41, where you present a table comparing contributions between First-Class and ECR.

- a. Ideally, within a subclass, should the unit contribution be similar for all pieces? If your response is affirmative, please provide the basis for this belief.
- b. In Standard Mail (A), is it your understanding that the unit contribution is higher for ECR than for Regular?
- c. In your view, what factors support having a higher unit contribution for Regular than ECR?
- d. Should the unit contribution for Priority Mail be higher or lower than First-Class Single Piece? Please explain.
- e. Do you believe that, for a typical multi-product enterprise, unit contribution should be a standard used in determining optimal prices for an array of products? If your answer is negative, please explain your response.
- f. Do you believe that most multi-product enterprises set prices to achieve parity in unit contribution among the products, or do multi-product enterprises more typically consider prices in relation to the marginal costs of each discrete product? Please explain your response and provide examples.

RESPONSE:

- (a) Not necessarily.
- (b) Yes.
- (c) I have not determined optimal rates for Standard (A) Regular.
- (d) I have not determined optimal rates for Priority Mail.
- (e) It should be one factor, but not the only one.
- (f) I have not performed a survey of multi-product enterprises.

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USPS/NAA-T1-30. On page 42 of your testimony, you state that "unlike cost coverage percentages, unit contributions are not distorted by the differing degrees of worksharing among the various subclasses."

- a) Identify the "distortion" to which your statement refers.
- b) Provide a quantitative illustration of the distortion to which your statement refers.
- c) Please confirm that the unit contribution is affected by the amount of worksharing that the mailer chooses to perform, as well as the passthrough of the postal costs avoided. If you cannot confirm, please explain fully.

RESPONSE:

- (a) The "distortion" refers to the misleadingly-high cost coverages that may come with subclasses with significant worksharing.
- (b) One example is the ECR subclass. See also the discussion at page 51 of my direct testimony. I also quote paragraphs 3070 and 3071 of the Commission's MC95-1 Decision:

"[3070] A simple numerical example will show why the current practice of offering cost-based worksharing discounts is appropriate. If two pieces of mail with attributable costs of 10 cents each are charged a rate of 15 cents, both pieces make a unit contribution to institutional costs of 5 cents and have an implicit cost coverage of 150 percent. If one of those pieces is barcoded, thereby allowing the Service to avoid 5 cents of attributable costs, and that piece is given a 5-cent worksharing discount, its new implicit cost coverage is 200 percent. In this example, because 100 percent of the cost savings is passed on to the mailer, both pieces will continue to contribute 5 cents toward institutional costs. Presumably the worksharing piece is better off, because its total costs decline (otherwise the mailer would not go to the trouble of worksharing) and neither the Postal Service nor other mailers are worse off. [3071] In this example, the implicit cost coverage of the workshare piece is higher than the implicit cost coverage of

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the piece which does not workshare. In fact, as a matter of arithmetic, in every situation in which some mail allows the Postal Service to avoid costs, the implicit cost coverage for that mail will be higher than the implicit coverage for otherwise similar mail. The Commission believes that this is just." (footnotes omitted)

- (c) Both the passthroughs and the amount of worksharing may affect the unit contribution.

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USPS/NAA-T1-31. On page 45, you claim that the Postal Service has an "objective of diverting mail from private sector competitors."

- a) Confirm that your statement implies that the Postal Service intends the result you claim, *i.e.*, diverting mail from private sector competitors."
- b) Putting aside the concerns of newspapers and alternative delivery, do you believe that, as a general matter, advertisers and their customers are better or worse off if the Postal Service offers lower rates for heavier weight Standard Mail (A) matter?
- c) Provide citations to all evidence in this docket that supports your allegation in the introductory subpart in this question.

RESPONSE:

- (a) See my response to USPS/NAA-T1-16 (a). The issue is whether its proposals are consistent with the objective, not the Postal Service's stated intentions. See my direct testimony, page 44, lines 3, to page 45, line 2. In Docket No. R97-1, the Postal Service was explicit about its objective. In the current proceeding, the Postal Service seems to be taking the approach of denying it has any such objective. See my direct testimony, page 5, lines 7-11.
- (b) I do not believe that the concerns of newspapers and alternative delivery should be put aside. Nevertheless, the answer to the question is, it depends. Competition among mailers may be affected. Those who may pay lower rates will be better off in the short run. In the long run, these mailers may lose the benefit of competitive alternatives if low rates cause competing firms to exit the industry. The impact on their customers is unclear.
- (c) See citations in my direct testimony at pages 42-50.

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USPS/NAA-T1-32. If you are unable to confirm any of the following, please explain fully. Please refer to page 45 of your testimony, where you state:

Witness Tolley estimates that fully 16.43% of the volume increase in ECR occurs as a result of past decisions to allow the ECR pound rate to decline in real terms, while rates of private enterprise competitors have gone up. [citing USPS-T-6 at page 132, Table 12.]

- a. Please confirm that the 16.43 percent which you cite from Dr. Tolley's Table 12 is the product of the observed change in the price of newspaper advertising over the last five years (20.7 percent increase) and the estimated elasticity of demand with respect to that variable (0.812).
- b. Please confirm that the elasticity with respect to the price of newspaper advertising is from a regression analysis conducted by witness Thress (USPS-T-7) which, in estimating that elasticity, holds constant all other factors.
- c. Please confirm that Dr. Tolley's estimate of a 16.43 percent increase in ECR volume on account of increases in the price of newspaper advertising is, contrary to your testimony, independent of any changes in any aspect of the ECR rates, including the ECR pound rate.
- d. Please confirm that, in terms of Table 12 in USPS-T-6, the place where any effect of changes in the real ECR pound rate over the five-year period would be reflected would be in the "Own price" row.
- e. Please confirm that the own price of ECR over the five-year period, expressed in real terms, increased 2.0 percent, and, when multiplied by the estimated own-price elasticity, resulted in an estimated 1.62 percent decline in ECR volume.

RESPONSE:

(a) Confirmed.

(b) Confirmed.

(c) The 16.43 percent increase in ECR volume is independent of the change in:

ECR rates. However, a substantial share of ECR volume changes are explained by a decision to allow ECR pound rates to decline in real terms

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while rates of private enterprise competitors have gone up. The combination of changes in real ECR rates and price of newspaper advertising as listed in USPS-T-6 Table 12 would indicate an approximate net effect of  $16.43 - 1.62 = 14.81\%$ . However, as explained in my testimony on pages 44, 48, 49, and 50, evaluation of the effect of ECR price changes should take into account the decline in real rates and in the real pound rate. .

(d) Confirmed.

(e) Witness Tolley performs a calculation at page 132 of his testimony that produces the numbers in your question. See my responses to USPS/NAA-T-1-34 through 36 for evidence of the decline in real ECR prices and real ECR pound rates.

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USPS/NAA-T1-33. Please see your testimony at page 46, line 13, through page 47, line 2.

However, there is no evidence that there are different levels of competition within different rate cells. Ergo, there is no reason not to raise the rates for the cells with proposed declines in rates except a cost rationale.

- a. Do you believe that if there were evidence of different levels of competition within different rate cells, that that would provide a reason for variations in the percentage changes for individual rate cells? If so, please explain how you would go about determining those percentage changes.
- b. Is it your belief that economically rational firms only make pricing decisions on the basis of a quantitative evaluation of competition for a given product, or do firms also consider qualitative factors informing the level of competition in a given market when considering prices for a product? Please explain your response.

RESPONSE:

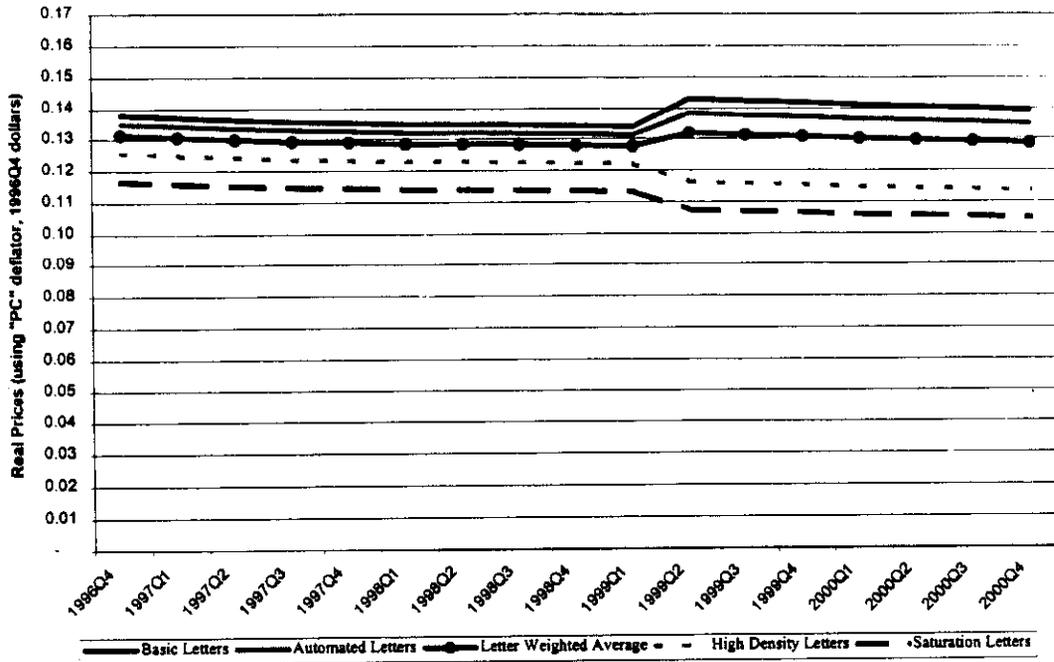
- (a) Not necessarily. My point was simply that there was no such evidence. As explained at Appendix B of my direct testimony, I am skeptical of rate design methods such as Ramsey pricing that attempt to establish rates based on different levels of competition.
- (b) I have not performed a survey of firms, but I would expect economically rational private unregulated firms to consider both.

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USPS/NAA-T1-34. Provide the charts on pages 48 and 49 of your testimony  
using 0 in lieu of 0.10 as the y-axis intercept.

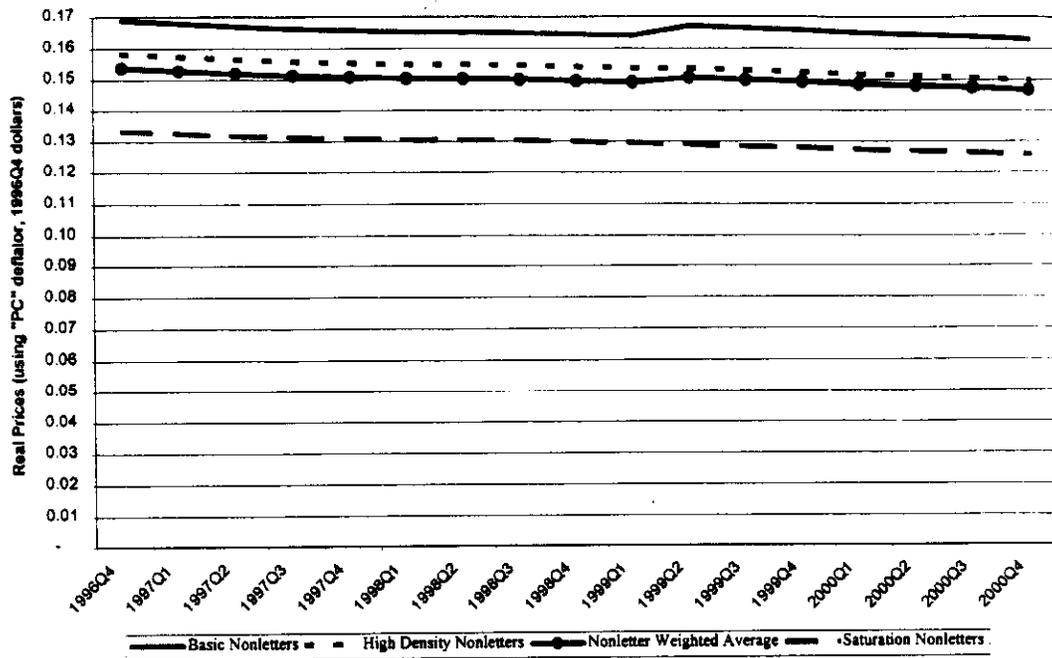
RESPONSE:

Real ECR Letter Prices



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Real ECR Nonletter Prices



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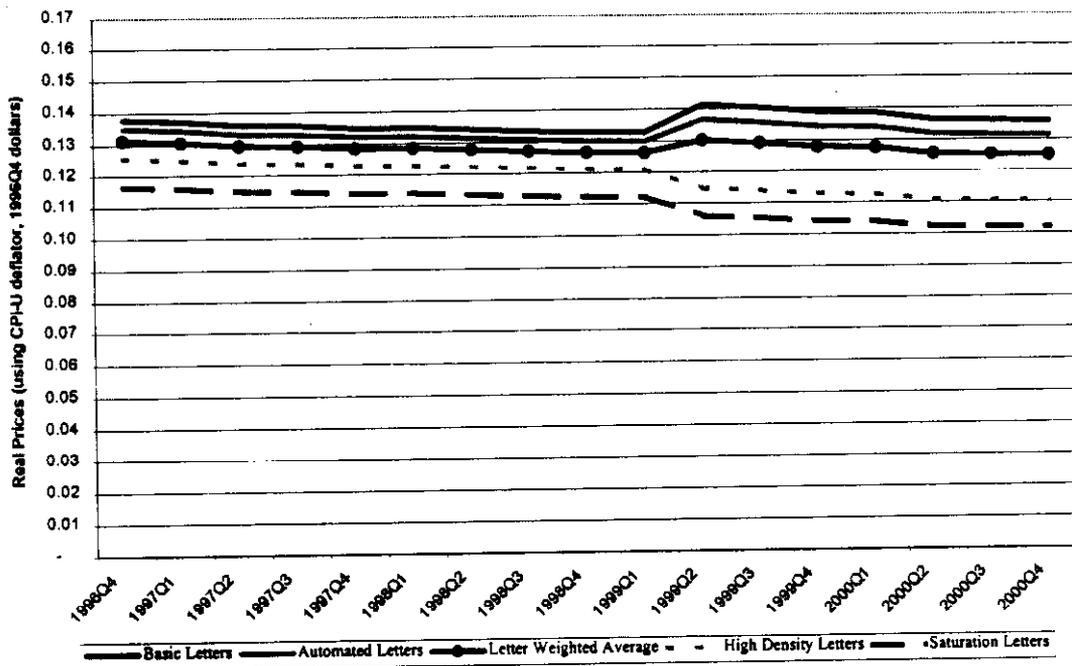
USPS/NAA-T1-35. Please refer to footnote 83 on page 47 of your testimony,  
where you state:

The following charts use Dr. Tolley's "PC" deflator, but a deflator  
such as Mr. Tayman's measure of general inflation would show  
similar results, Source: Witness Tolley Workpapers, LR-I-121,  
weighted average constructed using fixed proportions as given by  
Dr. Tolley's Before-Rates volumes.

Provide the charts on pages 48 and 49 of your testimony using Mr.  
Tayman's measure of general inflation, and using 0 in lieu of 0.10 as the  
y-axis intercept.

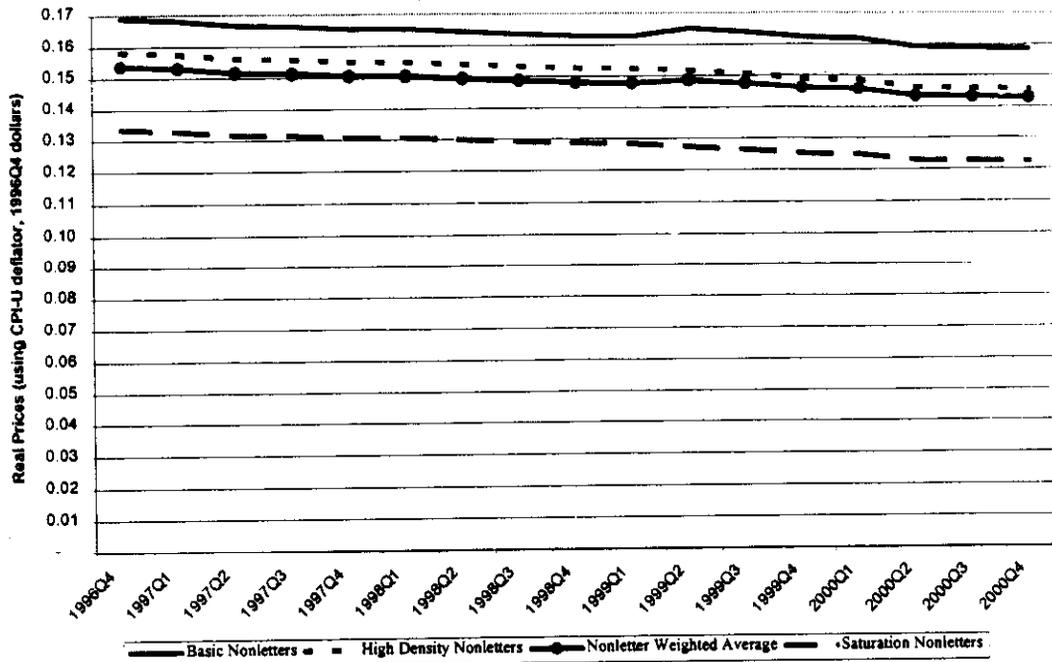
RESPONSE:

Real ECR Letter Prices



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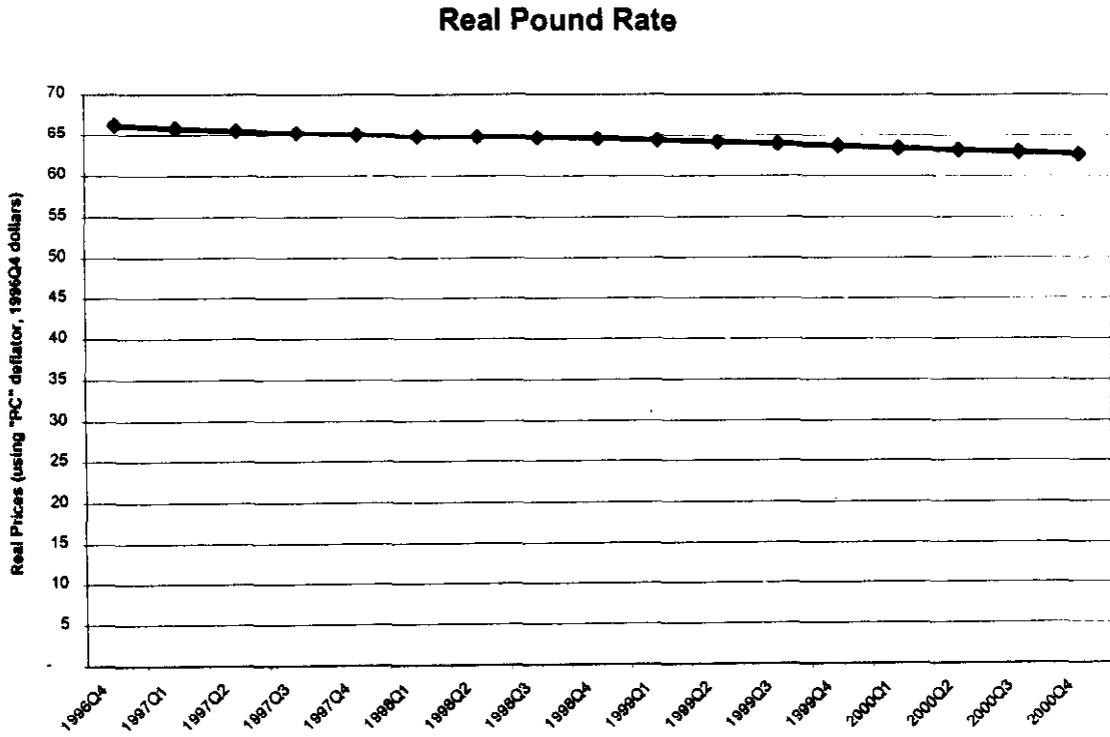
Real ECR Nonletter Prices



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USPS/NAA-T1-36. Provide the chart on page 50 using 0 in lieu of 60.0 as  
the y-axis intercept.

RESPONSE;



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USPS/NAA-T1-37. You state on page 51 of your testimony that:

Relatively high cost coverages for heavily workshared classes are not an anomaly, but rather the direct consequence of basing rate discounts on avoided costs of worksharing.

- a) Please explain how your statement is consistent (or inconsistent) with the historical treatment of Periodicals Mail Regular cost coverages.
- b) Do you believe that criterion 6 of 39 USC 3622(b) weighs in favor of relatively lower cost coverages for highly workshared subclasses?
- c) If your response to subpart (b) is negative, how do you believe criterion 6 should be used to evaluate the cost coverage of highly workshared classes? What Commission precedents support your response? Provide relevant citations.

RESPONSE:

(a) The statement was based on the assumption that all else was equal. See my response to USSP/NAA-T1-30 (b). See also footnotes 85-87 of my direct testimony on page 51. Obviously other ratemaking factors such as criterion 8 may also affect the results.

(b-c) I am not an attorney and do not speak to the legal meaning of criterion 6. However, nothing in criterion 6 makes mention of cost coverages. If worksharing is rewarded by discounts equal to avoided costs, then worksharing is recognized by a change in the rate. As to Commission precedents, see my response to USPS/NAA-T1-30 (b).

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**USPS/NAA-T1-38.** Please see your testimony at page 52, lines 10-11 where you state, "[d]ropping the pound rate and lowering the ECR cost coverage would have the effect of diverting volume from private enterprise competitors of ECR mail."

- a) Please provide all quantitative analysis you have performed to support this contention.
- b) Identify by name the "private enterprise competitors of ECR mail" to which you refer in your testimony.
- c) Identify the "private enterprise competitors of ECR mail" by codes in the Standard Industrial Classification (SIC) and the North American Industry Classification System (NAICS).
- d) State whether you reviewed the prices, either on an industry-wide basis or for individual firms, for the competing products offered by private enterprise competitors of ECR mail.
- e) Do you know whether the prices offered by alternative delivery for products competing with ECR are higher or lower than those proposed by the USPS for ECR? If your answer is affirmative, what is the source of your information?
- f) Do you know whether the prices offered by newspapers for products competing with ECR are higher or lower than those proposed by the USPS for ECR? If your answer is affirmative, what is the source of your information?
- g) Identify the quantitative information that you considered in drawing your conclusion that volume will be diverted from private enterprise competitors by virtue of the USPS proposed ECR rates.
- h) In preparing for your written testimony, did you discuss the weight characteristics or pricing information concerning newspaper advertising and/or alternative delivery with persons having knowledge of products that compete with ECR mail?
  - (i) If so, identify separately each of the person(s) you interviewed or had discussions with by name, title and organization.
  - (ii) Provide copies of any notes of conversations that you had with such persons (exclude any privileged attorney-client communications).

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- (iii) Provide the prices charged for products that compete with ECR mail.
- (i) In preparing your written testimony, did you review any studies, analyses, or other data concerning the weight characteristics of advertising matter in newspapers or alternative delivery pieces that compete with ECR mail?
  - (i) Identify each piece of information that you considered by title, date, and author; and
  - (ii) Provide a copy of each piece of information that you considered.
- (j) In preparing your written testimony, did you review any studies, analyses, or other data concerning the prices of advertising matter in newspapers or alternative delivery pieces that compete with ECR mail?
  - (i) Identify each piece of information that you considered by title, date, and author; and
  - (ii) Provide a copy of each piece of information that you considered.

RESPONSE:

- (a) See my response to USPS/NAA-T1-32 (c).
- (b) I did not have particular companies in mind. But certainly private enterprise competitors would include members of AAPS. NAA members are both customers and competitors of ECR mail.
- (c) I do not have the available information to answer your question.
- (d) I have reviewed price indices included in the workpapers of witness Thress, including the newspaper price index.
- (e-f) I relied on elasticities estimated by witness Thress.
- (g) See part a.
- (h) No.

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(i-iii) Not applicable.

(i) No.

(i-ii) Not applicable.

(j) Yes.

(i-ii) See part d.

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USPS/NAA-T1-39. Please see your testimony at page 52, lines 20-21. Please quantify the "past increases in volume of competitive classes due to diversion from private delivery."

RESPONSE:

The citation has been misquoted. "Private delivery" should read "private enterprise competitors." See my response to USPS/NAA-T1-32 (c).

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USPS/NAA-T1-40. Please refer to pages 33-35 of your testimony where you discuss the ECR cost coverage. If you do not confirm any of the following, please explain fully.

- a. Please confirm that, to the extent that price elasticity information was used to determine the appropriate cost coverage relationships in Docket No. R97-1, comparisons were made using the best estimates of the elasticities for the various subclasses available for that proceeding.
- b. Please confirm that when developing cost coverages for Docket No. R2000-1, similar comparisons were made using the best estimates of the elasticities for the various subclasses available for this proceeding.
- c. Please confirm that when those comparisons were made in Docket No. R2000-1, the relative levels of price elasticity among the subclasses had changed from the relative levels observed in Docket No. R97-1 because the estimated elasticity for ECR had changed (e.g., whereas the own price elasticity of ECR in Docket No. R97-1 was approximately 2.5 times the price elasticity of First-Class letters, the elasticity of ECR in Docket No. R2000-1 is approximately 3.5 times that of First-Class letters).
- d. Please confirm that, to the extent that price elasticity information was used to determine the appropriate cost coverage relationships in Docket No. R97-1, the change observed in the relative levels of price elasticity in Docket No. R2000-1 (e.g., ECR versus First-Class letters) would justify a reevaluation of the relative cost coverages, regardless of whether the observed change in price elasticity (i.e., R97 ECR versus R2000 ECR) was the result of structural change in demand over time or an improved ability to measure demand.

RESPONSE:

(a-b) Not confirmed. It is not clear from the questions who used these

“comparisons” and for what purpose, nor what is meant by “comparisons.” It

is also not clear what elasticities were available to whom and whether

elasticities determined coverages.

(c) Not confirmed. It is not clear from the question who used “those

comparisons” and for what purpose, nor what is meant by “those

comparisons”. Nor is it clear whether elasticity ratios were even used.

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(d) Not confirmed. See part c, plus my discussion of Ramsey pricing in Appendix  
B of my direct testimony.

## DECLARATION

I, William B. Tye, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

William B. Tye  
WILLIAM B. TYE

Dated: June 29, 2000